OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

USAID Spent Almost $400 Million on an Afghan Stabilization Project despite Uncertain Results, but Has Taken Steps to Better Assess Similar Efforts

April 25, 2012

SIGAR

Special Inspector General for Afghanistan Reconstruction

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What SIGAR Reviewed

In October 2006, the U.S. Agency for International Development (USAID) awarded two task orders to Development Alternatives, Inc. (DAI) and Associates in Rural Development (ARD) to implement the Local Governance and Community Development (LGCD) project in Afghanistan. Although LGCD changed over time, it was designed to contribute to the creation of a stable environment for medium- and long-term political, economic, and social development. Since September 2003, USAID has obligated more than $1.1 billion for 20 major contracts or grants that covered stabilization efforts. As of September 2011, USAID had expended about $373 million for the LGCD project. Although LGCD has ended, USAID is continuing its stabilization efforts, including awarding two contracts totaling $151 million for a program called Stabilization in Key Areas (SIKA). This report assesses (1) the cost and outcomes of the LGCD project and (2) USAID oversight of the project. In conducting our work, we reviewed and analyzed USAID and contractor documents; met with USAID officials at USAID headquarters in Washington, D.C., and at the USAID Mission in Kabul, Afghanistan, and with senior representatives from both contractors at their respective headquarters in Bethesda, Maryland, and Burlington, Vermont; and visited seven LGCD subprojects in two Afghanistan provinces. We conducted our work from January 2011 through March 2012 in accordance with generally accepted government auditing standards.

What SIGAR Found

USAID increased LGCD's funding and extended the life of the program, despite delays, unexpectedly high contractor operating costs, difficulty setting and measuring program outcomes, and indications that, at best, the program had mixed results. LGCD was initially approved with a funding ceiling of no more than $150 million and was to last 3 years. However, USAID increased funding for the program to almost $400 million and extended the project by almost 2 years. LGCD presented a number of challenges for USAID. For example, less than half of all LGCD funds were spent on subproject activity, even though the original task orders called for the majority of funds to be spent for that purpose. USAID also had difficulty determining whether LGCD was effective and changed its expectations over time of what it could achieve through the program. Available evaluations of the program indicate that it had mixed results. For example, an independent evaluation conducted at USAID's request found that, although the project had pockets of success, it had not met its overarching goal of extending the legitimacy of the Afghan government and had not brought the government closer to the people or fostered stability.

We found that USAID was hindered in its ability to monitor LGCD contract performance, a problem that USAID has reported regarding its other programs in Afghanistan for almost a decade. USAID has several methods for monitoring contract performance, such as field visits and third party monitoring, but these efforts are often hampered by travel and security restrictions. The U.S. government accepts a certain amount of risk in undertaking programs like LGCD. This makes obtaining supporting data from contractors for their invoices and conducting financial audits of the contractors particularly important. However, we found that the LGCD task orders and related contracts did not require contractors to submit supporting documentation for their invoices. In addition, USAID only recently committed to contract for a financial audit of the LGCD project, which is planned to occur in 2012.

What SIGAR Recommends

To strengthen USAID's oversight of contractor costs and allow it to link invoiced costs to the goods and services to be provided, SIGAR recommends that the Mission Director, USAID/Afghanistan, direct contracting officers to ensure that the SIKA contracts and others, as appropriate, require contractors to provide complete supporting detail with invoices. In commenting on a draft of this report, USAID stated that that its current policy guidance already addresses our concern about strengthening oversight of contractor costs. However, USAID's policy guidance depends on annual audits of contractors' costs to provide reasonable assurance that contractors are only claiming eligible, supported costs for reimbursement. Because USAID has a significant backlog of incurred cost audits, relying on this policy is not sufficient to address our concerns. In programs like LGCD, the risk that the U.S. government accepts is particularly high, and additional cost verification measures are necessary. USAID further stated that if we retained the recommendation it should be addressed to the USAID Administrator because it pertains to the entire agency. Although our recommendation may have broader applicability, we addressed this recommendation at the Mission level given the unique risks posed by stabilization programs in Afghanistan. Therefore, we kept the recommendation addressed to the Mission Director. If USAID believes that the recommendation has broader applicability, we welcome its efforts to apply it throughout the agency.

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OFFICE OF THE SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

April 25, 2012

The Honorable Hillary Rodham Clinton
Secretary of State

The Honorable Ryan C. Crocker
U.S. Ambassador to Afghanistan

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Dr. S. Ken Yamashita
USAID Mission Director for Afghanistan

This report discusses the results of the Office of the Special Inspector General for Afghanistan Reconstruction's (SIGAR) audit of the U.S. Agency for International Development's (USAID) Local Governance and Community Development project. This report includes one recommendation to the USAID Mission Director to Afghanistan to direct contracting officers to include a contract provision in future stabilization program contracts requiring contractors to provide complete supporting detail with their invoices. This measure would better allow contracting officer representatives, who are responsible for reviewing invoices, to link costs to the goods and services provided.

When preparing the final report, we considered comments from USAID. USAID commented that it has developed best practices and lessons learned from its stabilization efforts, including LGCD. USAID took exception to the recommendation and several findings. We chose to retain our recommendation. We conducted this performance audit under the authority of Public Law No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008. USAID's comments are reproduced in appendix VI.

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ABBREVIATIONS AND ACRONYMS

ADS	Automated Directives System
ARD	Associates in Rural Development, Inc.
Checchi	Checchi and Company Consulting, Inc.
COIN	counterinsurgency
COR	Contracting Officer's Representative
DAI	Development Alternatives, Inc.
DCAA	Defense Contract Audit Agency
DSF	District Stabilization Framework
GAO	Government Accountability Office
GIRoA	Government of the Islamic Republic of Afghanistan
LGCD	Local Governance and Community Development
OIG	Office of Inspector General
PMP	Performance Management Plan
PRT	Provincial Reconstruction Team
RFTOP	Request for Task Order Proposal
SIGAR	Special Inspector General for Afghanistan Reconstruction
SIKA	Stabilization in Key Areas
USAID	U.S. Agency for International Development

USAID Spent Almost $400 Million on an Afghan Stabilization Project despite Uncertain Results, but Has Taken Steps to Better Assess Similar Efforts

The U.S. Agency for International Development (USAID) has implemented a broad spectrum of development programs throughout Afghanistan. The country's insecure environment, however, has also required robust stabilization programming to work in partnership with the Government of the Islamic Republic of Afghanistan (GIRoA), coalition forces, and development partners, often in the country's most remote and challenging regions. Although the U.S. government has varying definitions of stabilization, USAID has defined the term as the process by which underlying tensions that might lead to resurgence in violence and a breakdown in law and order are managed and reduced, while efforts are made to support successful long-term development.[1] Since September 2003, USAID/Afghanistan has obligated more than $1.1 billion for 20 major contracts or grants that covered stabilization efforts. Two of the 20 awards were for the Local Governance and Community Development (LGCD) project with obligations of more than $328 million and $70 million, respectively.

To implement LGCD, which was overseen by a series of USAID Contracting Officer's Representatives (COR),[2] USAID competitively awarded cost-reimbursable task orders to two contractors in October 2006.[3] The task order for LGCD work in the northern and western provinces of Afghanistan was awarded to Associates in Rural Development, Inc. (ARD), and the task order for work in the southern and eastern provinces was awarded to Development Alternatives, Inc. (DAI). USAID relied on the contractors to propose, implement, monitor, and evaluate subprojects. In implementing subprojects, the contractors procured commodities, provided training, undertook small-scale development and rehabilitation, and provided subject matter experts in fields such as conflict mapping and analysis. The two contractors completed 2,938[4] work activities (subprojects) covering districts and villages in all 34 of Afghanistan's provinces. USAID terminated ARD's original task order for convenience, effective June 30, 2009. The LGCD project ended on August 28, 2011, with the closure of DAI's project office in Kandahar, Afghanistan.

This report assesses (1) the cost and outcomes of the LGCD project and (2) USAID oversight of the project. To accomplish these objectives, we reviewed and analyzed USAID and contractor documents. These included the original LGCD approval document; associated contracts, task orders, and modifications; USAID LGCD contract files; contractor plans and reports reviewed and approved by

[1]This definition appeared in USAID's LGCD task order, which in turn referenced the U.S. Army's 2008 Field Manual, entitled *Stability Operations.*

[2]The CORs were called Cognizant Technical Officers until January 26, 2009, when the designation was changed to the Contracting Officer's Technical Representative. In February 2012, USAID stated that the Contracting Officer's Technical Representative designation had been changed to Contracting Officer's Representative.

[3]USAID used two of its Indefinite Quantity Contracts to award the LGCD task orders. The contracts adhere to Federal Acquisition Regulation Subpart 16.5, which provides for a definite quantity of specific supplies or services for a fixed period, with deliveries or performance to be scheduled at designated locations upon order. The task orders were awarded on a cost-plus-fixed fee basis under which USAID reimburses the contractors for all allowable costs plus a fixed fee.

[4]DAI completed 2,451 projects and ARD completed 487 projects.

USAID; and records on selected subprojects performed between 2006 and 2011. In addition, we examined contractor invoices, USAID payments of those invoices, and the contractors' financial records. We also reviewed USAID Office of Inspector General (OIG) reports and a USAID-contracted assessment of LGCD project outcomes, as well as Afghanistan violence data maintained by the Defense Intelligence Agency. We reviewed reports from U.S. government and nongovernmental sources with substantial experience in Afghan reconstruction on the effectiveness of aid programs in promoting stability in Afghanistan. We interviewed USAID officials at USAID headquarters in Washington, D.C., and at its Mission in Kabul, Afghanistan, and senior representatives from both contractors. With the assistance of the U.S. military and USAID officials on provincial reconstruction teams (PRT), we visited seven LGCD subprojects in two Afghanistan provinces. We conducted our work from January 2011 through March 2012 in accordance with generally accepted government auditing standards. Appendix I contains a more detailed discussion of our scope and methodology.

BACKGROUND

Although stability was consistently a core component and focus of LGCD, the program also evolved to reflect and conform to the changing U.S. strategy in Afghanistan. When the program was first approved in 2006, its primary expected outcome was to stabilize unstable areas through projects that help the GIRoA extend its reach into remote districts, encourage local communities to take an active role in their own development, and create incentives for stability in critical border provinces. The statement of work for the LGCD task orders, also issued in 2006, described LGCD's principal goal as helping the GIRoA and local citizens develop the institutions, processes, and practices that will create a stable environment for long-term political, economic, and social development. The task orders contained four broad areas of work to be undertaken by the contractors, each with an expected outcome.

- Support to local public administration and governance. The expected outcome was improved provincial and municipal capacity to deliver services and address citizen needs. Examples of projects undertaken were leadership and management training and technical assistance in disaster management.
- Community mobilization and development. The expected outcome was greater community participation in the selection and implementation of small scale development projects and stronger ties between these communities and local government bodies that are responsible for provincial development. Examples of projects undertaken were information technology equipment purchases and furniture repair.
- Local stability initiatives. The expected outcome was improved stability in targeted districts and provinces. Examples of projects undertaken were canal cleaning, bridge repairs, and vocational training.
- Sector expertise. The expected outcome was to provide subject matter expertise to assist PRTs by identifying a pool of experts in subjects such as agriculture, local governance, conflict management, infrastructure, and community mobilization. Examples of projects undertaken were a water use survey, health facility assessment, and an alternative energy survey.

The task orders also identified which of USAID/Afghanistan's overall strategic objectives LGCD would support. First, LGCD was to improve stability by extending the reach of the central government, working to address the needs of isolated and under-served communities, and using development projects to address underlying causes of instability and support for insurgency in Afghanistan's outlying provinces. Second, LGCD was intended to reinforce other USAID programs by complementing training to provincial governments under the Mission's democracy and governance projects and cross-cutting capacity building programs.

In 2009, the project was redesigned to align more closely with the U.S. government's counterinsurgency (COIN) strategy, with USAID labeling LGCD its "flagship counterinsurgency program." The first work component, *support to local public administration and governance*, was eliminated from LGCD and moved to USAID/Afghanistan's capacity building program. The remaining three work components were aligned with the first three phases of the four-step COIN strategy—assess, clear, hold, and build. Specifically, the fourth work component, *sector expertise*, was aligned with the "assess" phase; the third work component, *local stability initiatives*, was aligned with the "clear" phase; and the second work component, *community mobilization and development*, was aligned with the "hold" phase. Other significant changes in 2009 included further decentralizing authority and responsibilities to the managers of regional and provincial offices, extending the reach of the program from 16 to 22 districts, and allowing for further expansion to provinces in the north and west, security permitting.

Under this new configuration, the stated primary goal of LGCD was to assist in creating a stable environment for long-term political, economic, and social development in partnership with the GIRoA. The stated objectives of the program were to (1) assist the GIRoA to extend its reach into unstable areas and engage at-risk populations by building the capacity of provincial and local government officials to deliver services and address citizen needs, (2) create an environment that encourages local communities to take an active role in their own development, and (3) promote stability by addressing the underlying causes of violence and support for insurgency.

In March 2010, LGCD was expanded nationwide in concert with the civilian uplift[5] announced by President Obama in December 2009. The program ended in August 2011.

LGCD Established Monitoring and Evaluation Requirements for Contractors

Under LGCD, each contractor was required to establish and maintain a performance-based monitoring and evaluation system capable of tracking and documenting the status of implementation of all work components' activities for the task order, the provision of deliverables, and the progress toward achieving targets and results.

The LGCD task orders did not prescribe performance indicators or targets, but rather directed that the contractors establish and maintain a performance-based monitoring system that, at a minimum, was to include several elements, including reporting of deliverables against work plan targets. The specific indicators and targets were established through Performance Management Plans (PMP) in a collaborative process, with the contractors proposing and USAID approving the indicators and performance targets. Specifically, the task orders required the contractors to provide the following:

- *A work plan* describing the task order-level outputs that the contractor expected to achieve during the planning period, linked to contract-level performance indicators and targets in the Mission's PMP and set forth in the task order performance monitoring and evaluation plan. The work plan was to include an explanation of how those task-level outputs were expected to contribute to USAID's strategic objectives and intermediate results and a budget.
- *Annual reports* that included the results the contractor had recorded from the application of the agreed-upon results monitoring plan. In addition, the contractor was to provide thorough

[5]In 2009, President Obama announced the expansion of civilian-led efforts to build Afghan governing capacity at all levels, improve the rule of law, and initiate sustainable economic growth. This effort has been supported by a significant increase, or "uplift," in U.S. civilian employees deployed to Afghanistan, from 320 personnel in January 2009 to over 1,200 authorized positions as of May 31, 2011. For additional information on the civilian uplift, see SIGAR Audit-11-2, *U.S. Civilian Uplift in Afghanistan is Progressing, Some Key Issues Merit Further Examination as Implementation Continues (*Oct. 26, 2010) and SIGAR Audit-11-17 and Department of State OIG AUD/SI-11-45, *The U.S. Civilian Uplift in Afghanistan Has Cost Nearly $2 Billion, and State Should Continue to Strengthen Its Management and Oversight of the Funds Transferred to Other Agencies* (Sept. 8, 2011)

monitoring data by the end of October of each year of the task order, when the USAID Mission begins drafting its annual performance report to USAID Washington.

- *A final report* to include a summary of accomplishments achieved under the task order, discussion of problems encountered where objectives were not achieved, and lessons learned.

USAID Has Continued Stabilization Activities

Although LGCD has ended, USAID is continuing its stabilization efforts. It has awarded contracts for a new program, called "Stabilization in Key Areas" or SIKA, which has similarities to LGCD. As described in USAID's request for proposals, SIKA has some programmatic, methodological, and administrative similarities to LGCD, including the main objective of stabilization. For example, LGCD and SIKA focus on activities with relatively short-term results that connect populations to more responsive local governments that meet their citizens' needs. On the other hand, in the request for proposals, promoting reconciliation and peace negotiations and emphasizing greater district-level GIRoA control over the selection and implementation of projects are larger elements of SIKA than they were for LGCD. USAID received bids from a number of contractors and in December 2011, awarded an 18-month contract for the eastern part of Afghanistan valued at $88 million; in January 2012, USAID awarded an 18-month contract for the western part of Afghanistan valued at about $63 million. Over the next 3 years, USAID plans to spend between $400 and $466 million on SIKA.

USAID INCREASED LGCD'S SIZE, DESPITE NUMEROUS CHALLENGES AND LITTLE EVIDENCE OF SUCCESS

USAID increased LGCD's funding and extended the life of the program, despite delays, unexpectedly high contractor operating costs, difficulty setting and measuring program outcomes, and indications that, at best, the program had mixed results. LGCD was initially approved with a funding ceiling of no more than $150 million and a completion date of October 2009. By the time the program ended, USAID had spent almost $373 million and extended the program by almost 2 years. USAID made these funding and schedule decisions despite facing a number of challenges. For example, the program experienced substantial delays in its first 2 years, and less than half of all LGCD funds were spent on subproject activity, even though the original task orders envisioned that the majority of funds would be spent for that purpose. Our review of contract documents, program evaluations, and interviews with USAID officials also shows that USAID had difficulty determining whether LGCD was effective and changed its expectations over time of what it could achieve through the program. Furthermore, those efforts that USAID and others made to evaluate the program indicated that results were mixed.

USAID Expanded LGCD beyond Originally Planned Size and Scope

Through a series of contract modifications, USAID both increased LGCD's funding and extended its project life. The original LGCD task orders were awarded for a 3-year period, which ended October 2009. LGCD's project approval action memorandum, issued in March 2006, stated that up to about $93 million over 3 years was planned. It also noted that, should additional resources become available in the second 2 years of the program (fiscal years 2007 and 2008), a total cumulative ceiling of $150 million would be authorized.

However, by the end of fiscal year 2008, USAID had obligated almost $226.5 million for the program through a series of modifications to the two task orders and had extended DAI's task order completion date from December 1, 2009 to September 30, 2010.[6] Later modifications to DAI's task order further increased the ceiling price and extended the completion date. (See appendices II and III for additional

[6]As noted earlier, USAID terminated ARD's contract for convenience effective June 2009.

details of each task order's modifications.) As noted earlier in this report, some of the expansions were driven by an increasing emphasis on LGCD's role in supporting the counterinsurgency effort nationwide and by the civilian uplift that took effect at the beginning of 2009. In total, as shown in table 1, USAID had allocated a total of $430 million for LGCD, obligated $398 million, and expended $373, as of September 30, 2011.

Table 1: Status of LGCD Funds as of September 30, 2011(dollars in millions)

	ARD	DAI	Total
Allocated	$ 81	$ 349	$ 430
Obligated	$ 70	$ 328	$ 398
Spent	$ 56	$ 317	$373

Source: SIGAR analysis of USAID data.

USAID expects to de-obligate remaining unexpended amounts once DAI's final billings have been settled.

LGCD Posed a Number of Challenges

USAID experienced a number of challenges related to LGCD. First, both contractors experienced substantial delays at the beginning of the project. Second, USAID spent more on contractor operating expenses, such as security and labor, and less on actual subproject activity than originally planned. Third, USAID struggled to determine what LGCD could and would achieve. Fourth, USAID had difficulty measuring the impact of LGCD.

LGCD Experienced Initial Delays

In 2009, in what were to be end of program evaluations, USAID's OIG and Checchi and Company Consulting, Inc. (Checchi)[7] each reported significant delays with project implementation in the first 2 years of the LGCD project.[8] The OIG found that the project suffered from delays in three of the four initial program components and reported that the project had been hindered, in part, by the need for refinements in the Mission's operational plan indicators and timely Mission approval of DAI's annual work plans. According to the Checchi report, both contractors experienced delays due to the need to decentralize operations and comply with the long-term process for approving an operational plan by which the task orders could be achieved. In addition, Checchi reported that the contractors needed time to integrate LGCD within the context of national Afghanistan development strategies and coordinate implementation with affected national ministries, policy bodies, and structures.

USAID's OIG made 12 recommendations to assist USAID/Afghanistan in improving its implementation and monitoring. USAID reported that it took steps to improve the program, and USAID OIG agreed with these steps. These steps included, among others, providing training for USAID personnel on their LGCD roles and responsibilities and developing standard procedures for contractor data collection and retention.

[7]The Checchi review was conducted at USAID/Afghanistan's request.

[8]See USAID OIG *Audit of USAID/Afghanistan's Local Governance and Community Development Project in Southern and Eastern Regions of Afghanistan* (Report No. 5-306-09-003-P; May 11, 2009); and Checchi and Company Consulting, Inc., *Final Report, Local Governance and Community Development Program (LGCD), Evaluation*, January 2009. The OIG report covered DAI's performance from 2006 through 2008 but did not evaluate ARD's performance under its task order.

From September 2009 through the end of the LGCD project in 2011, the subproject selection process, which had driven some of the delays, became better organized. To keep a sustainable number of subprojects in the pipeline, USAID Mission officials planned a "tranche" allocation about every 4 months. According to a former USAID official, a tranche supported anywhere from 15 to 25 subprojects per province on a wide array of activities designed to support the provincial LGCD project. Furthermore, with the experiences gained in the LGCD's early years, USAID improved its subproject approval process. This included identifying subproject types that should not be funded by LGCD, such as agriculture, water resource, and large infrastructure interventions.

Less than Half of LGCD Funds Were Spent on Subproject Activity

Over the life of the program, USAID reduced the amount of funds that it expected would be spent on subproject activity. The LGCD task orders contained ceiling prices and, within these ceilings, budget line items for various types of costs. The ceiling prices for ARD and DAI's task orders included budget line items for workdays ordered by USAID under the task orders, security, and life support (including housing and other living expenses). The ceiling prices also included budget line items for subgrants, commodities, and infrastructure programs—the line items most directly related to individual LGCD subprojects and, therefore, most likely to reach subproject beneficiaries. The original task orders envisioned that the majority of contractor costs would be for these three line items. However, in subsequent modifications, USAID reduced the proportion of these costs to less than half of the total LGCD ceiling price.

We determined that 36 percent and 42 percent of expenditures under the contracts for DAI and ARD, respectively, were for subproject activity.[9] Taken together, ARD's and DAI's labor costs and all other costs (except security)[10] constituted the largest percentage, at 50 percent for both ARD and DAI. Security costs comprised 8 percent of ARD's costs and 14 percent of DAI's costs. (See table 2.)

Table 2: Proportion of LGCD Contractors' Costs by Category

Category	ARD	DAI
Subproject Activity	42%	36%
Labor costs	26%	21%
Security Costs	8%	14%
All other costs	23%	29%

Source: SIGAR analysis of ARD and DAI cost data.

Note: Totals affected by rounding.

USAID Struggled to Define Stabilization and Expected Outcomes of LGCD

Our review of LGCD contract documents, interviews with contract and USAID personnel, and independent evaluations of the program shows that defining stabilization programming and assessing what it could realistically achieve posed a significant challenge. For example, a representative for one of the LGCD contractors told us that because USAID, the PRTs, and the contractors had little experience in

[9]For ARD, the invoiced budget line items most closely aligned with subproject activity were the subgrant program, the commodities program, and the infrastructure program. For DAI, they were the program activities and grants budget lines items.

[10]Because ARD and DAI invoiced costs differently, we grouped all remaining costs, except security, together and labeled them "all other costs." These costs included other direct costs, travel, allowances, and general and administrative costs.

the area of stabilization, and because LGCD was essentially an "experimental program," it was difficult for everyone to agree on outputs and outcomes.

The Checchi report also found that the contractors, USAID, and often the PRT commanders lacked a common understanding of the stabilization component of the program. The report noted two different concepts of local stability initiatives in Afghanistan: (1) community development work in non-secure areas or (2) counterinsurgency work, using community development principles. Checchi advised that stabilization initiatives needed to be precisely defined and needed to include a realistic explanation of the Afghan context, with examples of what local stability initiatives are and what contractors are expected to deliver. The report also noted that, given the inherent risk of stabilization programming, a common understanding of local stability initiatives shared by USAID and contractors was essential.

As noted above, USAID stated in 2006 that the primary expected outcome of LGCD was to stabilize unstable areas. Similarly, the Checchi report stated that the immediate focus and goals of LGCD's local stability initiatives should be to bring a modicum of stability to volatile areas. However, in September 2009, when LGCD was reconfigured to align it with the U.S. COIN strategy, USAID reached a conclusion that LGCD required "more realistic objectives and results." Furthermore, in the March 2010 modification of LGCD, USAID noted that many factors outside of LGCD's control contribute to instability, and that a linear shift from instability to stability does not always occur. As a result, USAID adopted three new intermediary results for the program: (1) root causes of instability are identified and local solutions enabled, (2) GIRoA officials provide leadership to strengthen stability and development in target communities, and (3) communities become principal stakeholders in creating stability and development alternatives to insurgent paradigms.

A comparison of USAID documents from 2011 with earlier documents on LGCD further demonstrates the extent to which USAID's conception of stabilization changed over time. The original LGCD task orders emphasized the importance of development and employment projects in achieving success with stabilization activities. For example, they stated that short-term stabilization involves identifying and engaging populations that are vulnerable to recruitment into militant groups, such as alienated, uneducated, and unemployed youth, and that violence linked to a lack of development had created an environment of generalized instability. The task orders offered examples of activities that the contractors could undertake to promote stability, including using development projects as an incentive for different groups or tribes to negotiate truces or ceasefires and employment activities for at-risk young people. A 2011 USAID presentation, however, appears to call into question the value of these activities in contributing to stability. Specifically, the presentation states that the idea that "economic development and modernization foster stability" and that "more jobs means less support for insurgents" are "myths."

USAID Had Difficulty Measuring Program Results

In addition to struggling to clearly define LGCD and its expected outcomes, USAID faced challenges developing and implementing an accurate and robust method for measuring the program's effectiveness. As noted earlier, LGCD performance indicators and targets were established in PMPs agreed upon by both the contractors and USAID through a collaborative process. The first PMP, jointly developed by DAI and ARD, was approved by USAID in May 2007.[11] It contained seven indicators that were aimed at measuring results across a broad area of LGCD project activity. However, in December 2008, USAID instituted a "wholesale revision" of the LGCD PMP for DAI, noting that the PMP initially approved in May 2007 did not adequately capture and measure ongoing LGCD activities in the south and east of Afghanistan. USAID also acknowledged that the initial attempt to define indicators common to activities in both the south/east regions of Afghanistan and the north/west regions "proved inadequate" because the two programs operated in different security and development environments, resulting in varying approaches to program implementation. The revised PMP contained 16 performance indicators and

[11]The task orders for both contractors were awarded in October 2006, 7 months earlier.

targets linked to the task order work components, which according to USAID were more appropriate for the LGCD project.

The concerns that USAID identified in the 2008 PMP were also addressed in the 2009 USAID OIG report. For example, the OIG reported that DAI's performance targets did not realistically reflect what the Mission intended to achieve under LGCD and that the results also did not represent the activities for which a significant amount of funding was disbursed. The OIG concluded that these issues weakened the link between funding, activities, and desired results and could ultimately impair decision making at the stakeholder level.

In December 2009, USAID approved a third LGCD PMP for DAI. It was designed to reflect the program's new alignment with the COIN strategy and clarify how LGCD measured the outputs and outcomes of its activities. It contained 15 indicators—6 linked to specific task order work components, 2 to the overall assistance objective, and 7 common indicators. It also announced that the program would partner with a third-party research institution in Afghanistan to administer perception surveys to targeted communities. These surveys were conducted in 2010 and, aside from a few PMP indicators related to levels of stability, constituted USAID's first serious effort to measure the effect of LGCD on stability.[12] The surveys gauged the opinions of 5,411 Afghans in 123 villages across 64 districts regarding their perceptions of stability. Villages were chosen randomly and all were located within one kilometer of LGCD projects that had been implemented within 3 months of the survey. However, due to security issues, over a quarter (33) of the originally selected villages had to be replaced with more secure villages. As a result, DAI concluded that the inability to extract data from areas that were heavily controlled by the insurgency had "introduced a systemic bias" in the sample.

Beginning in 2010, the USAID Mission and the Counterinsurgency Training Center-Afghanistan developed the District Stabilization Framework (DSF) to identify root causes of instability at the local level; develop activities that specifically addressed these sources of instability; and measure the impact of programming, as well as overall stability trends, in areas where activities were being implemented. DSF was promoted through a USAID Mission order, guidance from the Commander of the International Security Assistant Forces, Secretary of Defense guidance, and a fragmentary order issued by the Regional Command-East.

However, in 2011, USAID acknowledged that the degree to which the DSF was being used and to what effect remained in question. It issued a Request for Task Order Proposal (RFTOP)[13] for an independent contractor to measure the impact of stabilization initiatives. The RFTOP stated that, while past efforts to provide quantified and scientifically rigorous measures of stabilization impact had met with some success, a more data-rich and geographically detailed approach was necessary to systematize an understanding of stabilization in the context of Afghanistan. For example, according to the RFTOP, the PMP for USAID/Afghanistan's Stabilization Unit (which oversaw LGCD, among other programs) was output-oriented and lacked a clearly articulated theory of change consistent with the underlying logic of individual unit programs. The RFTOP called for, among other things, a review of previous or ongoing efforts to measure stabilization impacts and trends in Afghanistan, including the DSF and monitoring and evaluation efforts associated with LGCD.

A senior official we met with from USAID's Stabilization Unit in July 2011 described similar concerns to those outlined in the RFTOP. This official told us that USAID needed to invest in a broader monitoring and evaluation effort for LGCD and similar programs, noting a tendency to report on outputs rather than outcomes. He also said that stabilization efforts and project implementation in an active combat

[12]Examples of LGCD stability measures, aside from the perception surveys, included the number of people trained in conflict mitigation/resolution and the percent of LGCD priority districts with follow-on build (that is, development) activities.

[13]RFTOP-SOL-306-12-000001 was issued on December 1, 2011.

environment were new for USAID in Afghanistan, and that these programs were in need of an evaluation to determine the extent to which they were meeting the intended objectives.

Evaluations Indicate that LGCD Had Mixed Success

Although USAID had difficulty measuring program outcomes, some evaluations of LGCD are available. These evaluations indicate that the program produced mixed results. As explained above, the contractors were required to report their progress in meeting performance indicators and targets contained in the PMPs. These indicators were largely output-oriented. Examples of indicators were the number of target institutions (i.e., local Afghan development groups) reporting publicly on service delivery performance improvements, the number of institutions equipped with information technology or internet connection, the number of key facilities or other infrastructure rehabilitated, and the number of government officials trained. As shown in table 3, the contractors' ability to meet their targets varied over time. Appendix IV contains more detail on LGCD performance indicators and the extent to which they were met in 2009, 2010, and 2011.

Table 3: Summary of Contractor Performance in Meeting LGCD Program Targets, Fiscal Years 2008-2011

Contractor	Fiscal year[a]	Targets met	Targets not met	Success rate (percent)
ARD	2008	4	2	67
ARD	2009	12	12	50
DAI	2008	13	1	93
DAI	2009	12	3	80
DAI	2010	7	8	47
DAI	2011[b]	12	3	80

Source: SIGAR analysis of contractors' annual reports to USAID.

Notes:

[a]Reporting did not fully measure success in achieving targets in 2007.

[b]First 3 quarters of fiscal year 2011; the project ended in August 2011.

Independent evaluations of the program also pointed to mixed results. For example, USAID OIG reported that the project achieved a number of planned results, such as on-the-job training for government staff, assistance to ministries in developing requests for donor funds, and construction of a school in Nangarhar Province that brought two competing tribes together for a common project. However, the OIG also reported that the project's overall success seemed highly questionable.

Checchi reported that LGCD had a minimal impact on improving stability and mixed results in achieving task order goals. Specifically, the report stated that "the program (LGCD) has not met its overarching goal of extending the legitimacy of the Afghan government nor has it brought government closer to the people or fostered stability." Checchi also reported on progress against the four original task order components. It found that while the project did not meet its overarching objectives or outcomes, the evaluation team reported pockets of success by both contractors within each of the four program components' outputs. In Checchi's assessment, the first component—*supporting local public administration and governance*—had the most success. Checchi found that a multi-faceted package of initiatives raised the capacity of provincial and district government officials. The second component—*promoting community mobilization and development*—had intermittent success. While several subprojects helped foster links between community and government, Checchi also reported that a

significant number of community development subprojects had neither achieved their intended objectives nor furthered the LGCD's ultimate goals of bringing communities closer to government and introducing stability. The third and fourth components regarding local stability initiatives and assistance to PRTs also had a mixed record of success. Checchi reported that ARD and DAI admitted to poor implementation of local stability initiatives over most of the program period that it reviewed.

The perception surveys of villagers, which started in 2010, similarly pointed to mixed results. Of the 110 originally selected villages with complete results, 59 were seen as "wins" for improvements in stability, 24 were "stalemates," and 27 were viewed as "losses." However, as noted above, these results were somewhat biased because 33 of the originally selected villages had to be replaced with more secure villages. DAI missed its target in 2010, but surpassed it in 2011. Specifically, in fiscal year 2010, the target was for 40 percent of respondents to view that stability in their community had improved, but only 35 percent of respondents said that stability had improved. In fiscal year 2011, USAID reduced the target to 35 percent, and 42 percent of respondents said stability had improved. According to DAI, stability improvement responses should be approached with some caution because the trend was in line with the reduction in violence during the winter months when insurgents typically reduce violent engagement. DAI also noted that perceptions of improved stability may thus be due to factors outside of LGCD's control such as a surge in military forces. However, DAI stated that the improvement in stability perceptions in 2011 showed a positive trend in the success of the program.

DAI used a regression analysis with the results of the survey to determine which types of LGCD activities were highly correlated to improvements in stability perceptions. The results pointed to the GIRoA's ability to provide security, improvements in GIRoA's service delivery, access to food, and GIRoA's responsiveness as the four conditions most connected to stability improvements. Activities that did not have a high correlation with improvements in stability included improved health, increased work opportunities, rises in monthly income, and land ownership. The survey concluded that while most of LGCD focused on short-term cash-for-work projects, long-term employment generated by improved conditions for agriculture is more effective in improving stability and should be the greater focus for counterinsurgency and development efforts.

In June 2011, USAID issued a fact sheet on LGCD, which stated that the project had many successes, including the

- completion of more than 2,500 community stabilization projects, representing an investment of $109 million;
- generation of immediate short-term employment totaling 1.5 million employment days through cash-for-work activities; and
- completion of significant and lasting improvements in rural infrastructure, including gravel roads, footbridges, and irrigation systems.

USAID also provided success stories showing that individual subprojects benefitted local villages and sometimes resulted in their rejection of the Taliban. For example, in Uruzgan province, LGCD helped villagers returning to homes damaged in heavy fighting to rebuild, plant crops, and restart their lives. In Kapisa province, an LGCD project to clear snow from 11 kilometers of a major commerce route provided short-term employment. The snow clearing provided the men a source of winter income and created an opportunity for the community to meet and discuss future development initiatives with their local government representatives. A few weeks after the completion of the project, the villagers announced that they would no longer tolerate a Taliban presence in the valley and would fight to protect future reconstruction and development efforts.

Because USAID and DAI assessments of LGCD's effect on stability were principally based on the perception surveys, we sought to ascertain what broader data indicated regarding stability in the locations

where LGCD focused its activities. Although the effect of LGCD on security levels cannot be isolated, violence data can be used as one indicator of stability. We looked at the level of violence as measured by enemy-initiated attacks, incident reports, and other studies that discussed the effect of development activities on security. In the absence of quantitative data at the village level and because the task orders envisioned improved stability at the district and province level, we looked at data at those levels.

Our analysis of Defense Intelligence Agency data showed that each of the eight provinces with the most LGCD activity experienced increases in the level of violence between 2006 and 2010, ranging from almost two to twenty times. In these eight provinces, enemy-initiated attacks increased by 50 percent between 2006 and 2010, a higher increase than throughout the country for the same period.

We also obtained and reviewed unclassified coalition data on violent incidents at the district level. The data included violent, criminal, and coercive events, such as kidnapping, improvised explosive devices detection and explosion, and small arms fire. We focused on the eight provinces that had the most LGCD activity and, within those provinces, the eight districts with the largest concentration of LGCD activity. Our review showed significant increases in reported incidents from 2006 through 2010. For example, 249 percent more incidents were reported in those eight districts in 2010 than in 2006.

When we discussed this violence data with USAID officials, they stated that attack data is one area to consider in assessing stabilization efforts, but it is difficult to associate this information with a specific stabilization program or to determine if the impact is low or high. They also noted that stability trends at the province level were not an accurate reflection of LGCD effectiveness because the project did not have activities in every district of a province.

Independent studies of other development programs aimed at stabilization in Afghanistan also raise questions about the extent to which these types of programs can lead to positive results. We reviewed a number of studies undertaken by the Senate Foreign Relations Committee, the U.S. Army, and a variety of nongovernmental entities, including Tufts University and the Massachusetts Institute of Technology. The studies found little evidence that development programs aimed at promoting stability have been successful. Appendix V contains summaries of the studies.

USAID WAS LIMITED IN ITS ABILITY TO MONITOR LGCD ACTIVITIES

USAID's ability to monitor LGCD was hampered by a number of factors. USAID monitored subprojects through a combination of COR field visits, reports from its field offices, and third-party monitoring. In programs like LGCD the U.S. government accepts a certain amount of risk because its ability to assure that contractor costs are appropriate is limited by the difficulty in getting to subproject sites. This makes obtaining complete supporting documentation from contractors for their invoices and conducting financial audits of contractor costs on a timely basis particularly important. However, we found that the LGCD task orders did not require contractors to submit supporting documentation for their invoices. Furthermore, the Defense Contract Audit Agency (DCAA), which USAID uses to audit the LGCD contractors' incurred costs, is more than a decade behind in auditing DAI's costs and has not completed reports on ARD's costs past fiscal year 2006, when LGCD began. USAID only recently committed to contract for a financial audit of the LGCD project in 2012.

USAID Staff Used a Variety of Techniques to Monitor Projects, Including Reports and Limited Field Visits

USAID guidance for administering contracts assigns the bulk of contract administration to the COR, including monitoring performance, coordinating with the contracting officer, and problem resolution. USAID's supplement to the Federal Acquisition Regulation stipulates that monitoring performance is a function of contract administration.[14] Performance monitoring requires that USAID personnel, particularly the COR, maintain adequate knowledge of contractor activities and progress in order to ensure that USAID's objectives, as stated in the statement of work, are achieved.

USAID has reported limitations in its ability to monitor contractor performance in Afghanistan for almost a decade. In its 2011 corrective action plan, required by the Federal Managers' Financial Integrity Act,[15] USAID reported that, as early as 2003, restrictions on travel outside the U.S. embassy compound, resulting from Afghanistan's security situation, limited USAID CORs from "adequately monitoring the quality and timeliness of outputs produced by contractors and others." Several CORs with whom we met confirmed this limitation.[16] Although the LGCD project started in October 2006, one COR reported that it was not until June 2008 that he received approval to travel to LGCD contractors' offices located outside the U.S. Embassy compound and PRT locations. Another COR, who served between 2008 and 2010, indicated that some provinces were too violent for USAID and its contractors to monitor LGCD activities. A third COR, serving in 2011, explained that he could only travel outside the embassy compound 6 to 9 days a month, due to security restrictions.

To help address the monitoring limitations noted in the internal control reports, USAID authorized alternative monitoring methods to keep Mission personnel safe while satisfying the need to visit project sites and meet with beneficiaries of development assistance. These methods included photographic evidence requirements; the use of local and/or third-party monitoring; engagement with other U.S. government agencies (that is, regional security officers or U.S. military); the use of other technology for consultation or oversight; the establishment of flexible targets, results, and approval timelines; and cooperation with other donors.[17]

USAID's Contracting Officers typically designate CORs to assist in administering contracts.[18] According to the Contracting Officer's designation letter for the LGCD project, the COR's performance monitoring responsibilities included the approval of monitoring plans to ensure consistency with contract terms and conditions. Within limits, the COR can use other USAID and external parties to assist in contract monitoring. For example, other parties can conduct fact-finding, provide analyses or interpretations of technical requirements, or make recommendations for the COR. We found that the CORs not only conducted their own visits, where possible, but took advantage of the alternative methods described above by relying on other USAID personnel, the contractors, and independent third parties to help monitor LGCD activities.

In March 2010, USAID modified DAI's task order to advise DAI that USAID was appointing activity managers to assist the COR with monitoring work under the task order and, where possible, inspecting all

[14]USAID Acquisition Regulation 742.1170-1

[15]To comply with the Federal Managers' Financial Integrity Act of 1982, USAID requires its missions to annually report on significant internal control deficiencies and the action plan to correct the noted deficiencies.

[16]Two and five CORs covered the work of ARD and DAI, respectively, over the life of the LGCD project.

[17]USAID's Automated Directives System (ADS) 202.3.6.4 contains a complete list of approved alternative monitoring methods in high-threat environments.

[18]48 C.F.R. § 2901.603-71 authorizes the Contracting Officer to designate a COR to assist with fulfilling contractual responsibilities.

deliverables prior to handover to the final beneficiary.[19] These representatives were considered the "eyes and ears" of USAID in the field. They took pictures of LGCD subprojects; conducted site visits or directed local staff to visit sites, where possible; met with the LGCD contractor in their areas of responsibility at least weekly; and provided monitoring reports of field visits by email or phone. To better understand the activity manager's role, we reviewed three subproject monitoring reports—each from a different province—and found consistency in coverage and format. The reports, which were documented on a standard form, covered a ceremonial handover of furniture to local government officials and members of a local woman's association, a graduation ceremony of women trained in fruit and vegetable processing and kitchen hygiene, and a progress report on an infrastructure subproject. All three reports included a narrative and photographs of the day's events. The narrative for the infrastructure subproject also included the subproject's background, objectives, and expected outcome, as well as findings, testimonials from beneficiaries, and recommendations.

CORs also used LGCD contractor data to help monitor project activities. In addition to periodic reports, USAID had access to the contractors' project databases. DAI's database played a central role in program monitoring by providing CORs and activity managers with electronic access to information on LGCD subprojects. Although useful, the quality of the available data depended on contractor personnel and had limitations. DAI informed us about possible differences between its database and its paper files, which DAI deemed as the official file for subproject activity. DAI's database showed that it had visited 885 of its 2,714 subprojects.[20] DAI said that not all site visits were recorded in its database, but did not provide the number of visits that were recorded elsewhere. Furthermore, DAI reported "allegations of gross employee misconduct that included the falsification of monitoring and site visit reports."[21]

When conducting site visits to selected LGCD subprojects to assess their status, we relied upon contractor-provided data to locate the sites. Our LGCD subproject visits took place in Logar and Nangahar Provinces.

- In Logar Province, three subprojects provided furniture and/or computer equipment, and we verified that the items were at the sites and in use. A fourth subproject was rehabilitation of a boundary wall, which appeared to be well maintained and in good condition.
- In Nangahar Province, we attempted to visit three LGCD subproject sites, but could not locate two of them based on the information in DAI's project files. One subproject, a boundary wall, was not at the global positioning coordinates identified in the contractor's reports. In the other instance, although we observed a canal at the identified coordinates, it did not match the information in the subproject file. DAI officials subsequently told us that that the coordinates in the project files have been corrected. They also subsequently visited the two sites and provided us with information showing that the subprojects at those sites were completed. The third site we visited, a gravel road and associated culverts and bridges, had been completed, but had degraded in places.

[19]In October 2010, USAID had 40 activity managers for the LGCD project. ADS 202.3.4.3 authorizes USAID to appoint activity managers to perform a wide range of project management, oversight, and coordination tasks. Activity managers can be foreign service nationals, personal service contractors, third-country nationals, or other USAID staff.

[20]DAI undertook 2,714 subprojects, of which 2,451 were completed and the others were cancelled or terminated.

[21]DAI reported this in its final report on LGCD, encompassing October 2006 through August 2011.

USAID's Ability to Verify Contractor Requests for Payment was Limited

USAID's CORs for LGCD took several steps to verify the LGCD contractors' requests for payment (i.e., invoices),[22] but were hindered by limited information and difficulties visiting project sites.

According to USAID guidance, the COR should perform several financial management functions to determine (1) if goods or services USAID received conform to those specifically requested; (2) if the services USAID requested have been rendered as described in the billing, or if the contractor has delivered goods in an acceptable condition; and (3) that the payment is in order. [23] The guidance also requires the COR to submit a completed administrative approval form to USAID's paying office within 5 workdays of the dated form.[24] Among other things, this form contains boxes for the COR to acknowledge that he or she visited project sites and confirm that goods and/or services had been received.

For the LGCD project, CORs were assigned to review each invoice. However, the CORs' ability to do so was hindered because neither the contractors' task orders for LGCD nor the overall contract under which the task orders were issued required DAI to submit documentation in support of invoices. USAID policy is to request only the documentation that the payment clause in the contract requires.[25]

DAI submitted 75 invoices between December 2006 and July 2011, ranging from under $1 million to more than $12 million. Our assessment of the supporting data for three of these invoices (processed in 2009, 2010, and 2011) demonstrates the difficulty that CORs can face reviewing invoices when the supporting documentation is incomplete. Although the task order did not require the submission of supporting documentation, the contractor did submit support with each invoice. However, this support was incomplete. As a result, we could not match over $1 million in the invoices for subproject activity with their underlying support. Our analysis of each of the three invoices, which is illustrative and not a representative sample, follows.

- Of the $7.5 million requested for services provided in March 2009 and contained in DAI's April 19, 2009 invoice, over $4.9 million was billed for grants, commodities, infrastructure activities, local service agreements, and special initiatives. The supporting documentation provided sufficient details to support billings for about $3.4 million of the $3.8 million categorized under commodities, infrastructure, local service agreements, and special initiatives, and $1.1 million in grant activities. However, the remaining $400,000 could not be directly attributed to any subproject activity within these categories. The invoice was accompanied by USAID's administrative approval form and checklist. Dated April 19, 2009, it showed that over the past 3 months the COR had made 6 field visits to project sites, visited the main office of the implementing agency 7 times and discussed project implementation, and met with counterparts 12 times regarding contractor performance and/or commodity deliveries.
- DAI's invoice for services provided in August 2010 amounted to just over $10 million, of which $3.1 million was billed for program activities and grants. The supporting data provided sufficient details to attribute $2,039,434 and $510,142 to program activities and grants associated with LGCD subprojects covered by the invoice. However, we could not attribute attribute $595,530 invoiced for program activities to any subproject activity. The September 16, 2010, administrative approval form and checklist accompanying the invoice showed that over 3 months the COR had made 3 field visits to project sites and observed project implementation, had visited

[22]A "contractor request for payment" is also considered a "voucher" or an "invoice submission."

[23]ADS Chapter 630.

[24]The Prompt Payment Act, 31 U.S.C. Chapter 39, requires agencies to pay commercial obligations within certain time periods and to pay interest penalties when payments are late.

[25]ADS Chapter 630.3.2.3

the main office of the implementing agency 12 times and discussed project implementation, and met with his counterparts 20 times regarding contractor level performance and/or commodity deliveries.

- Of the $6.4 million invoiced by DAI for services provided in March 2011, $186,394 was attributable to program activities and $171,067 to grants. Although the supporting documentation provided sufficient details for the grant activity, only $179,950 of the program activities costs could be directly attributed to the subproject activities covered by the invoice. The remaining $6,444 could not be linked to subproject activity. The April 13, 2011, administrative approval form and checklist[26] accompanying the invoice showed that over 3 months the COR had made 2 field visits to project sites and observed project implementation, had visited the main office of the implementing agency 12 times and discussed project implementation, and met with counterparts 12 times regarding contractor level performance and/or commodity deliveries.

USAID faced additional challenges assessing the invoices. Although CORs are required to assure that goods and services are received as part of the invoice approval process, the large number of LGCD subprojects covered by the invoices, coupled with just one COR at any time and the challenges of travel in Afghanistan, made it impossible to visit all subprojects within the periods covered by the invoice. For example, the administrative checklist for approving DAI's August 2010 invoice potentially covered up to 214 subprojects, and DAI overall was actively working on 608 LGCD subprojects in 22 provinces.

When we asked two former CORs about their process for reviewing invoices, they stated that given the 5 workdays available to them, they reviewed the invoices' support against the summary data and mostly relied on their understanding of contractor activity to attest that goods and services were received by USAID. This understanding was derived from the CORs' access to data in DAI's project management system, the approval process for LGCD subproject activity, and the many meetings, telephone conversations, and reports received from USAID field personnel and from PRTs, contractors, and other representatives.

In discussing our analysis with USAID officials, they noted that they complied with USAID invoice review procedures applicable throughout USAID. Furthermore, one LGCD COR noted that the COR review is not an analytical review of subproject costs. On an invoice for this type of contract, the COR provides administrative approval that goods and/or services specified in the invoice were received and conform to the requirements of the agreement between the vendor and USAID. USAID's policy also relies on annual audits of contractors to obtain reasonable assurance that they are claiming only eligible, supported costs.

Financial Audit of LGCD Planned for 2012

We found that USAID delayed arranging a financial audit of LGCD. DCAA audits are intended to be a key control to help ensure that prices paid by the government for needed goods and services are fair and reasonable and that contractors are charging the government in accordance with applicable laws, the Federal Acquisition Regulation, Cost Accounting Standards, and contract terms. The Federal Acquisition Regulation states that normally, for contractors other than educational institutions and nonprofit organizations, DCAA is the responsible Government audit agency.[27] USAID has a memorandum of understanding with DCAA that states that DCAA will audit U.S. for-profit firms for which DCAA is cognizant. When DCAA cannot be responsive to USAID's needs for an audit, USAID's directives state

[26]USAID revised the checklist in March 2011, which replaced the CTO reference with "AOTR/COTR" or the Agreement/Contracting Officer's Technical Representative.

[27]Federal Acquisition Regulation 42.101 (b).

that the USAID OIG must contract with a non-Federal public accountant or use its own audit staff to perform the audit.[28]

Although DCAA is more than a decade behind in its incurred cost audits of DAI and 5 years behind in such audits for ARD, USAID until recently had not made other arrangements to obtain incurred cost audits as allowed by its directives. The most current USAID-requested audit of DAI incurred costs was for the years 1999 through 2001, a period that does not cover LGCD activities. DCAA had agreed to provide USAID with a report covering DAI's costs for 1999 by January 30, 2012, and for 2000 and 2001 by March 30, 2012. The most current DCAA audits of ARD incurred costs are for fiscal years 2005 and 2006 and were issued on August 29, 2008, and September 24, 2008, respectively. USAID informed us in November 2011 that DCAA had yet to start incurred cost audits of ARD for fiscal years 2007 and beyond.[29]

Another tool to assure that incurred costs are appropriate is contract close-out audits, which are done after contracts are completed. A critical step to closing out contracts is to determine how to allocate a contractor's general administrative and overhead costs to each of its contracts. This step cannot be completed until the indirect cost rate for the contractor's general administrative and overhead costs for the final year of contract performance is settled and the final price of the contract is determined. USAID policy states that an incurred cost audit of a contractor would satisfy the close-out audit requirement. Contract close out has not begun for the LGCD contracts and could take years to complete.

A December 2011 USAID OIG report challenging $6.6 million in DAI incurred costs, mostly involving deficient procurement practices, underscored the importance of incurred cost audits.[30] The OIG reported that in March 2011, it received a copy of a DAI internal audit report, dated September 23, 2009, detailing financial and internal control problems occurring from August 2008 through August 2009. DAI had not provided this report to USAID or returned any funds to USAID related to questioned expenditures identified in the report. OIG conducted its review to assess selected problems raised in the internal audit report and to determine whether DAI incurred questionable costs on the project. The OIG recommended that USAID/Afghanistan determine the allowability of and, as appropriate, recover the questioned costs from DAI. USAID/Afghanistan agreed to review the allowability of the questioned costs and initiate recovery of any unallowable costs with a February 28, 2012, target date for final action. The OIG also recommended and USAID/Afghanistan agreed to contract for a financial audit of DAI's LGCD project to determine whether all the costs charged to USAID were reasonable, allowable, and allocable. In addition, USAID/Afghanistan indicated that it would include a closeout financial audit of the Local Governance and Community Development Project in its fiscal year 2012 audit management plan. The target date for final action is May 31, 2012.

USAID has taken broader steps through its Accountable Assistance for Afghanistan initiative. One step is to increase financial controls through a joint program with the USAID OIG to audit all locally incurred costs of program-funded contractors. Audits will be performed by internationally-accredited regionally based audit firms and checked by USAID's OIG. USAID/Afghanistan in another step is also increasing its project oversight through the establishment of on-site monitors in USAID field offices for project monitoring. Each USAID project will be assigned an on-site monitor who will provide real-time data to contract staff in Kabul on project performance and accountability.

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[28]ADS, Chapter 591, "Financial Audits of USAID Contractors, Recipients, and Host Government Entities," 591.3.1.2.

[29]DCAA is behind in conducting numerous financial audits for USAID. We have a separate audit underway of the status of financial audits of USAID's contractors.

[30]USAID OIG, *Review of Responses to Internal Audit Findings on the Local Governance and Community Development Project* (Report Number F-306-12-001-S, December 26, 2011).

CONCLUSION

Although LGCD has ended, its implementation raises important questions about USAID's significant investment in stabilization efforts in Afghanistan. We identified a number of challenges that the program faced, including implementation delays; higher contractor operating costs than anticipated; and, perhaps most notably, difficulties defining and measuring outcomes. Furthermore, evaluations conducted by both the contractors and independent entities indicate that LGCD had, at best, mixed results. Notwithstanding these challenges and little clear evidence of success, USAID chose to significantly increase funding for the program and extend its life. This decision raises concerns about SIKA, a stabilization program on which USAID expects to spend at least $400 million in coming years.

In programs like LGCD, the U.S. government accepts a certain amount of risk because its ability to assure that contractor costs are appropriate is typically limited by the size and geographic scope of the program, coupled with logistical and security challenges that limit travel. Given this risk, the absence of a requirement in the LGCD task orders for contractors to submit support for invoices is problematic. Unless USAID institutes stronger requirements, it will continue to hamper CORs' ability to conduct thorough oversight of ongoing and future contracts.

RECOMMENDATION

SIGAR remains concerned about the extent to which USAID will successfully define and measure outcomes for its stabilization activities, particularly SIKA. However, because USAID has issued an RFTOP to, among other things, measure the impact of stabilization initiatives and review previous and ongoing stabilization efforts, we are not making a recommendation related to this issue at this time.

To strengthen the CORs' oversight of contractor costs and allow CORs to link invoiced costs to the goods and services to be provided, SIGAR recommends that the Mission Director, USAID/Afghanistan, take the following action:

1. Direct contracting officers to ensure the SIKA contracts and others, as appropriate, require contractors to provide complete supporting detail with invoices.

COMMENTS

In commenting on a draft of this report, USAID discussed the challenges of undertaking stabilization activities, took exception to several findings, and expressed the view that our recommendation is unnecessary (see appendix VI). USAID stated that stabilization is a different development approach and that its stabilization efforts in Afghanistan and experiences in other similar environments led to the USAID Administrator's January 2011 Stabilization Guidance. USAID also said that, in light of the nature of stabilization programming, our highlighting of "mixed results" is understandable and that our findings provide USAID/Afghanistan with additional insights as the Mission continues to adapt and refine its approach for supporting critical U.S. national security interests. We agree that stabilization efforts in Afghanistan are challenging and commend USAID for taking steps to improve them.

Regarding our recommendation, USAID stated that its current policy guidance already addresses our concern about strengthening oversight of contractor costs. However, USAID's policy guidance depends on annual audits of contractors' costs to provide reasonable assurance that contractors are only claiming eligible, supported costs for reimbursement. Because USAID has a significant backlog of incurred cost audits, relying on this policy is not sufficient to address our concerns. In programs like LGCD, the risk the U.S. government accepts is particularly high, and additional cost verification measures are necessary. USAID further stated that, if we retained the recommendation, it should be addressed to the USAID

Administrator because it pertains to the entire agency. Although our recommendation may have broader applicability, we addressed this recommendation at the Mission level given the unique risks posed by stabilization programs in Afghanistan. Therefore, we kept the recommendation addressed to the Mission Director. If USAID believes that the recommendation has broader applicability, we welcome its efforts to apply it throughout the agency.

APPENDIX I: SCOPE AND METHODOLOGY

This report presents the results of the Office of the Special Inspector General for Afghanistan Reconstruction's review of the U.S. Agency for International Development's (USAID) Local Governance and Community Development (LGCD) project. LGCD, which USAID has described as its flagship stability program, was approved in March 2006 with the principal goal of stabilizing unstable areas throughout Afghanistan and ended in August 2011. To implement LGCD, USAID competitively awarded cost reimbursable task orders to two contractors in October 2006. The task order for LGCD work in the northern and western provinces of Afghanistan was awarded to Associates in Rural Development, Inc. (ARD), while the task order for work in the southern and eastern provinces was awarded to Development Alternatives, Inc. (DAI). This report assesses (1) the cost and outcomes of the LGCD project and (2) USAID oversight of the project.

To examine cost and outcomes of the LGCD project, we met with officials from USAID headquarters in Washington, D.C.; USAID/Afghanistan in Kabul, Afghanistan; and the two construction contractors, ARD and DAI. We reviewed the task order documentation for the period October 2006 through August 2011, including the original LGCD approval document; associated contracts and task orders and modifications to them, including the statements of work; USAID LGCD contract files; contractor performance management plans (PMP) and quarterly, annual, and final reports reviewed and approved by USAID; and reports on LGCD prepared by USAID's Office of Inspector General and a third party assessment contracted by USAID. The contractor conducting that assessment, Checchi and Company, Consulting, stated that it held more than 250 interviews with various stakeholders, beneficiaries, contractors, and Provincial Reconstruction Team offices and conducted more than 50 site visits. We also reviewed ARD and DAI invoice and accounting data containing detailed cost breakdowns. To further assess whether LGCD was achieving its principal objective of improving stability, we sought to ascertain whether broader data indicated LGCD's success. This included assessing reporting by a variety of governmental and non-governmental organizations, including the Senate Foreign Relations Committee, U.S. Government Accountability Office, the U.S. Army National Ground Intelligence Center, and a series of studies undertaken by Tufts University Feinstein International Center. We identified reports through our ongoing review of literature involving activities in Afghanistan and discussion with individuals involved in studying aid programs in Afghanistan. These reports discussed the effectiveness of aid programs in general and in promoting stability in Afghanistan. We also examined Defense Intelligence Agency data on enemy-initiated attacks in Afghanistan. According to Defense Intelligence Agency officials, the data they report on enemy-initiated attacks represent a reliable and consistent source of information that can be used to identify trends in enemy activity and the overall security situation in Afghanistan. Senior DOD officials have used enemy-initiated attack levels as an indicator of the security situation in overseas contingency environments on several occasions. We used data on the number of subprojects maintained by the LGCD contractors.

To examine USAID oversight of LGCD, we reviewed USAID policies and procedures detailing oversight responsibilities and its Federal Managers Financial Integrity Act reporting; examined USAID contract files; and analyzed USAID/Afghanistan supplied examples that typified activity manager monitoring reports and several examples of one contractor's requests for payment or invoices. In addition, we met with the contractors at their respective offices not only to discuss the LGCD project, but to review the contractors' LGCD financial records covering selected LGCD costs and requests for payment. We used contractor-provided data extracts from their project management systems to quantify the number, value, and status of LGCD subprojects and to perform other analyses. We determined that the computer-processed data was sufficiently reliable for purposes of the audit objectives.

We assessed internal controls over contract oversight and oversight procedures through interviews with contracting officials and reviews of relevant contract files. The results of our assessment are included in the body of this report. We also visited selected LGCD subprojects in Logar and Nangahar Provinces.

We conducted work at USAID headquarters in Washington, D.C.; USAID/Afghanistan in Kabul, Afghanistan; ARD's headquarters in Burlington, Vermont; DAI's headquarters in Bethesda, Maryland; and in Nangahar and Logar Provinces, Afghanistan, from January 2011 to March 2012. The review was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted by the Special Inspector General for Afghanistan Reconstruction under the authority of Pub. L. No. 110-181, as amended; the Inspector General Act of 1978; and the Inspector General Reform Act of 2008, Pub. L. No. 110-409.

APPENDIX II: ARD'S CONTRACT MODIFICATIONS

The following table summarizes the modifications to Associates in Rural Development, Incorporated's contract for the Local Government and Community Development project.

Table I: Modifications to IQC DFD I-00-05-00248, Task Order 02

Award	Date	Purpose	Cost/schedule change
LGCD task order award	Oct. 8, 2006	Outlined the statement of work, reporting requirements, ceiling price, etc., for LGCD TO.	$9 million obligated and completion date set for Oct. 8, 2009.
Modification (Mod) 1	Dec. 21, 2006	Increased task order obligation by $3.5 million.	Task order obligation increased from $9 million to $12.5 million.
Mod 2	Oct. 11, 2007	Restructured level of effort and workdays ordered, incorporated "procedural mechanism" into task order, and fixed typographical error.	None
Mod 3	Dec. 3, 2007	Increased task order obligation by $2.9 million.	Task order obligation increased from $12.5 million to $15.4 million.
Mod 4	Mar. 28, 2008	Revised statement of work and added supplemental budget.	None
Mod 5	Jun. 02, 2008	Increased task order obligation by $40 million. ARD directed to establish an accounting and management system for supplemental funds.	Task order obligation increased from $15.4 million to $55.4 million.
Mod 6	Jul. 14, 2008	Restructured level of effort and workdays ordered. Revised "Approved Procedures Mechanism," statement of work, and Section A.4 dealing with reports. Realigned budget.	None
Mod 7	Nov. 30, 2008	Incrementally increased funding for the task order by $15 million.	Task order obligation increased from $55.4 million to $70.4 million.
Mod 8	Jan. 28, 2009	Realigned the core and supplemental budgets. Made changes to parts of task order narrative.	None
Mod 9	Jun. 02, 2009	Terminated task order for convenience and deobligated $13 million.	Task order obligation reduced from $70.4 million to $57.4 million.

Source: SIGAR's analysis of the modifications to IQC DFD I-00-05-00248, Task Order 02.

APPENDIX III: DAI'S CONTRACT MODIFICATIONS

The following table summarizes the modifications to Development Alternatives, Inc.'s contract for the Local Government and Community Development project.

Table II: Modifications to IQC DFD I-02-05-00250, Task Order 02

Award	Date	Purpose	Cost/schedule change
LGCD task order award	Oct. 2, 2006	Outlined the statement of work, reporting requirements, ceiling price, etc.	$18 million obligated and task order completion date set for October 01, 2009.
Modification (Mod) 1	Dec. 12, 2006	Increased task order obligation by $6.9 million.	Task order obligation increased from $18 million to $24.9 million.
Mod 2	Nov. 30, 2007	Increased task order obligation by $2.5 million,	Task order obligation increased from $24.9 million to $27.4 million.
Mod 3	Nov. 30, 2007	Increased task order obligation by $68.8 million. Revised statement of work. Realigned budget data. Added "procedure mechanism."	Task order obligation increased from $27.4 million to $96.2 million.
Mod 4	Feb. 6, 2008	Increased task order obligation by $5.5 million.	Task order obligation increased from $96.2 million to $101.7 million.
Mod 5	Apr. 29, 2008	Modified statement of work regarding work locations.	None
Mod 6	May 14, 2008	Increased task order obligation by $17.7 million.	Task order obligation increased from $101.7 million to $119.4 million.
Mod 7	Jul. 15, 2008	Restructured the level of effort and workdays. Changed approval procedure mechanism. Realigned budget.	None
Mod 8	Nov. 30, 2008	Increased task order obligation by $28.4 million.	Task order obligation increased from $119.4 million to $147.7 million.
Mod 9	Dec. 30, 2008	Earmarked $5 million for Nangarhar Province. Increased task order obligation by $5 million. Realigned budget. Clarified in-kind support requirements. Corrected administrative error from Mod 7.	TO obligation increased from $147.7 million to $152.7 million.
Mod 10	May 10, 2009	Realigned budget based on actual incurred costs and updated the level of effort table to reflect personnel approvals. Adjusted budget to allow more funds for sub-grants and commodities.	None
Mod 11	Sep. 16, 2009	Increased task order obligation by $16.3 million. Scope of Work changed to align LGCD with U.S. government counterinsurgency strategy, remove component 1 from LGCD, and expand geographic scope from 16 to 22 provinces.	Task order obligation increased from $152.7 million to $169.1 million. Task order completion date extended from December 1, 2009 to September 30, 2010.
Mod 12	Oct. 19, 2009	Increased task order obligation by $63 million.	Task order obligation increased from $169.1 million to $232.1 million.

Award	Date	Purpose	Cost/schedule change
Mod 13	Mar. 31, 2010	Increased task order obligation by $34 million. Increased period of performance and geographic scope to include key districts in the north. Realigned budget. Added three intermediate results to the scope of work. Increased workdays ordered. Revised reporting schedule. Revised approval procedures.	Task order obligation increased from $232.1 millionto $266.1 million. Task order completion tade extended from September 30, 2010 to April 30, 2011.
Mod 14	Aug. 1, 2010	Increased task order obligation by $50 million. Increased maximum grant amounts in Kandahar to $25,000. Added Federal Acquisition Regulation changes and AAPD 10-04.	Task order obligation increased from $266.1 million to $316.1 million.
Mod 15	Nov. 1, 2010	Adjusted task order obligation amounts.	None
Mod 16	Feb. 1, 2011	Required use of the Synchronized Predeployment and Operational Tracker for contractors supporting a diplomatic or consular Mission outside the United States. Required contractors to report serious incidents (gun fire, deaths, etc.). Provided information on gender integration requirements.	None
Mod 17	Feb. 11, 2011	Incrementally funded the contract to $328.1 million. Realigned budget, removed key northern districts from the project, revised scope of work, modified approval procedures, and fixed typographical error.	Task order completion date extended from April 30, 2011 to August 2011. Increased TO obligation from $316.1 million to $328.1 million.

Source: SIGAR analysis of the modifications to IQC DFD I-02-05-00250, Task Order 02.

APPENDIX IV: EXTENT TO WHICH DAI MET PERFORMANCE INDICATORS IN FISCAL YEARS 2009, 2010, AND 2011

Tables III-V summarize Development Alternatives, Inc.'s (DAI) reported success in meeting performance targets in fiscal years 2009, 2010, and 2011, respectively.

Table III: DAI-Reported Success in Meeting Performance Targets in Fiscal Year 2009

Indicator number	Indicator name	Target	Achievement	Target met
1	Target institutions, such as Office of the Provincial Governor, Provincial Development Committee, and selected Provincial Line Ministry Departments, implementing service delivery performance mechanisms	60	116	Yes
2	Target institutions reporting publicly on service delivery performance improvements	60	75	Yes
3	Provincial Development Committees demonstrating improved performance toward operational guidelines as measured by Quarterly Service Delivery Performance reports	12	15	Yes
4	Office of Provincial Governor demonstrating improved performance toward Operational Guidelines as measured by Quarterly Service Delivery Performance Reports	12	13	Yes
5	Government officials trained	2,500	6,287	Yes
6	Number of institutions equipped with IT or internet connection	54	196	Yes
7	Number of provincial and district institutions rehabilitated	32	15	No
8	Percent of subprojects involving government officials in project identification, implementation, and monitoring and evaluation	80	71%	No
9	Number of citizens directly benefiting from subproject employment opportunities	10,250	17,723	Yes
10	Number of citizens directly benefiting from subproject training opportunities	30,000	36,849	Yes
11	Percent of Component 3 (Local Stability Initiatives) areas of intervention with follow on Component 1 (Local Governance) and Component 2 (Community Mobilization and Development) activities	70%	35%	No
12	Number of community-based reconciliation projects completed with U.S. government assistance	41	127	Yes
13	Number of people trained in conflict mitigation/resolution skills with U.S. government assistance	1,780	2,036	Yes
14	Number of service sector assessments	20	28	Yes
15	Number of rapid institutional capacity assessments of government agencies	60	99	Yes

Source: DAI annual reports on the Local Governance and Community Development project.

Table IV: DAI-Reported Success in Meeting Performance Targets in Fiscal Year 2010

Indicator number	Indicator name	Target	Achievement	Target met/yes or no
1	Percent of insecure target communities with follow-on build activities	15% of LGCD districts	21.60%	Yes
2	Number of community requests for activities to GIRoA	62	64	Yes
3	Percent of community members who respond that GIRoA's ability to provide the community with basic services increased	43%	33%	No
4	Percent of community members who respond that stability in their community improved	40%	35%	No
5	Percent of activities with community contributions	80%	77%	Yes[a]
6	Percent of LGCD community members who respond that their ability to meet their basic needs increased	49%	42%	No
7	Number of assessments conducted	41	11	No
8	Percent of assessments used to inform COIN activities	80%	64%	No
9	Number of organizations and institutions equipped through LGCD	220	296	Yes
10	Number of key infrastructure rehabilitated	713	705	Yes[a]
11	Percent of activities involving government officials in project planning, implementation, and/or evaluation	60%	66%	Yes
12	Number of community-based reconciliation projects completed with U.S. government assistance	140	222	Yes
13	Person days of training	200,000	115,302	No
14	Person days of employment	475,000	205,546	No
15	Number of district areas of clear activities with follow on hold activities	49	39	No

Source: DAI annual reports on Local Governance and Community Development project.

[a]DAI reported that if achievements were within 10 percent of the target it was considered a success. Although performance did not meet the target for this indicator, it was within 10 percent and as such we have characterized it as meeting the target.

Table V: DAI-Reported Success in Meeting Performance Targets in Fical Year 2011

Indicator Number	Indicator Name	Target	Achievement	Target met
1	Number of community requests for activities to GIRoA	136	286	Yes
2	Percent of community members who respond that GIRoA's ability to provide services increased	36%	40%	Yes
3	Percent of community members who respond that stability in their community improved	35%	42%	Yes
4	Percent of activities with community contributions	93%	96%	Yes
5	Percent of community members who respond that their ability to meet needs increased	40%	41%	Yes
6	Number of assessments conducted	16	15	Yes[a]
7	Percent of assessments used to inform stability activities	80%	25%	No
8	Number of organizations and institutions equipped through LGCD	355	670	Yes
9	Number of key infrastructure rehabilitated	582	992	Yes
10	Percent of activities involving government officials in project planning, implementation, and/or evaluation	75%	85%	Yes
11	Number of community-based reconciliation projects completed with USG assistance	272	619	Yes
12	Person days of training	144,123	126,723	No
13	Person days of employment	295,600	235,362	No
14	Number of district areas of clear activities with follow on hold activities	1	3	Yes
15	Number of technical advisors assigned to GIRoA	4	7	Yes

Source: DAI annual reports on Local Governance and Community Development project.

[a]DAI reported that if achievements were within 10 percent of the target it was considered a success. Although performance did not meet the target for this indicator it was within 10 percent and as such we have characterized it as meeting the target.

APPENDIX V: STUDY SUMMARIES ON THE IMPACT OF DEVELOPMENT ON STABILITY

We identified and reviewed a number of studies on the impact of stabilization and development programs on stability in Afghanistan through our ongoing review of literature involving activities in Afghanistan and discussion with individuals involved in studying aid programs there. These studies were undertaken by the U.S. Government Accountability Office (GAO), the U.S. Army, and a variety of non-governmental entities. Following are short summaries of the studies.

- Committee on Foreign Relations, United States Senate, Majority Staff Report, *Evaluating U.S. Foreign Assistance to Afghanistan*, Senate Report 112-21, June 8, 2011. In its June 2011 report assessing the impact of U.S. aid in Afghanistan, the U.S. Senate Foreign Relations Committee stated: "The evidence that stabilization programs promote stability in Afghanistan is limited. Some research suggests the opposite and development best practices question the efficacy of using aid as a stabilization tool over the long run."
- Tufts University Feinstein International Center, *Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan's Balkh Province*, November 2010; *Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan's Faryab Province*, January 2011; *Winning Hearts and Minds? Examining the Relationship between Aid and Security in Afghanistan's Helmand Province*, April 2011. A series of studies undertaken by Tufts University Feinstein International Center examined the relationship between aid and security in three provinces (Helmand, Balkh, and Faryab provinces). Each of the reports questioned the effectiveness of using aid as an instrument of security policy. According to the Faryab study, there was "no evidence that aid projects contribute to stabilization in the short-term."
- International Crisis Group, *Aid and Conflict in Afghanistan*, Asia Report Number 210, August 4, 2011. This study concluded that after a decade of major security, development and humanitarian assistance, the international community has failed to achieve a politically stable and economically viable Afghanistan. The study further concluded that various assessments of aid have found that even with timely disbursement and project completion, the impact on lives remains uncertain, particularly when assistance is shaped by stabilization goals rather than the needs, priorities and input of the recipients. The study specifically mentioned the Local Governance and Community Development project.
- U.S. Army National Ground Intelligence Center, *Afghanistan: The Effectiveness of Development as a Component of Counterinsurgency Strategy*, NGIC-1584-8127-11, November 7, 2011. This assessment evaluated whether social and economic development projects in Afghanistan over the period 2002-2010 influenced stability conditions. The Center's report concluded that development projects exerted too varied and weak an influence upon stability in Afghanistan for development to deserve serious consideration as a means of countering or addressing that country's insurgency. In nearly all cases, development (road, road feature, education, governance, public health, and infrastructure projects) either negatively affected security indicators (incidents of violence against international coalition forces and nongovernmental organizations, incidents of coercion of locals, and incidents of locals turning in weapons and weapons components to international coalition forces) or positively impacted those indicators by negligible amounts.
- Massachusetts Institute of Technology, Political Science Department, *Winning Hearts and Minds? Evidence from a Field Experiement in Afghanistan*, Working Paper No. 2011-14, 2011. This study focused on the ability of the National Solidarity Program to improve stability found that while that program helped increase perceptions of the level of security of villagers in program's areas, there was no evidence that the level of security actually had improved.

- GAO, *Afghanistan's Security Environment* (GAO-10-178R, November 5, 2009, and GAO-10-613R, May 5, 2010). In May 2010, GAO reported that the Department of State January 2010 Afghanistan and Pakistan Regional Stabilization Strategy cited reconstruction and development as key elements of the overall effort to stabilize Afghanistan and reduce the strength of the insurgency. However, the strategy acknowledges that the success of such civilian programs in Afghanistan is contingent on improved security. In November 2009, GAO reported that, although U.S. and international development projects in Afghanistan had made some progress, deteriorating security complicated such efforts to stabilize and rebuild the country.
- Wilton Park in partnership with Tufts University Feinstein International Center, *Winning 'Hearts and Minds' in Afghanistan: Assessing the Effectiveness of Development Aid in COIN Operations*, Report on Wilton Park Conference 1022, March 2010. This was a report on a March 2010 conference held in Wilton Park, England, with support from the Australian Agency for International Development, the British Foreign and Commonwealth Office and others. It concluded that given the centrality of development aid to current COIN doctrine and strategy, there is still a surprisingly weak evidence base for the effectiveness of aid in promoting stabilization and security objectives.

APPENDIX VI: COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID | AFGHANISTAN
FROM THE AMERICAN PEOPLE

MEMORANDUM April 8, 2012

TO: Steven J. Trent
Acting Special Inspector General for Afghanistan Reconstruction (SIGAR)

FROM: S. Ken Yamashita, Mission Director

SUBJECT: Draft SIGAR Report "USAID Spent Almost $400 Million on an Afghan Stabilization Project Despite Uncertain Results, but Has Taken Steps to Better Assess Similar Efforts" (SIGAR Audit 12-xx)

REF: SIGAR transmittal email dated 3/16/2012

Thank you for providing USAID with the opportunity to review and comment on the subject draft report. Presented below are USAID's general comments on the draft report as well as our response to the recommendation contained in the draft report.

I. USAID'S GENERAL COMMENTS ON THE DRAFT REPORT

The USAID Administrator's Stabilization Guidance, issued in January 2011, highlights the fact that "stabilization is a different development assistance approach" in terms of objectives, beneficiaries, modalities and measurement tools. This guidance was informed by best practices and lessons learned from the Agency's experience over several years in conflict-affected contexts, including Afghanistan. The Local Governance and Community Development (LGCD) Project initiated by USAID/Afghanistan in October 2006 was one of several stabilization projects that informed the development of the January 2011 guidance.

This different approach requires the Agency and its implementing partners to seek creative solutions to complicated problems in hostile contexts, and to foster a USAID ethic that rewards adaptation. Furthermore, this guidance encourages USAID to "take calculated risks," which are acknowledged as "inherent in stabilization programs" due to their implementation "in insecure, dynamic environments where success

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[redacted]

is uncertain, local conditions are highly variable, and USAID direct oversight may not be possible."

In light of the nature of USAID stabilization programming and its unique aims and objectives, SIGAR's highlighting of "mixed results" for the LGCD project is understandable. However, the essential nature of stabilization programming is, in particular, the imperative for flexibility, and the need to take calculated, managed risks in fluid, uncertain operating environments; feeding lessons learned into the analysis informing future strategy and activity design.

SIGAR's findings provide USAID/Afghanistan with additional insights as the Mission continues to adapt and refine its approach for supporting critical U.S. national security interests. While current stabilization programming still includes support for Coalition Forces counterinsurgency efforts, it is increasingly linked to transition to Afghan-led security and development.

The four "challenges" faced by LGCD that SIGAR described in its report, (i.e., start-up delays, high operating costs, an evolving strategy, and difficulty measuring program impact) are factors of the fluid, often insecure operating environments in which such programs are implemented. Additionally, their inherent flexible design is necessary to be able to respond to changing political-security demands from a variety of stakeholders.

USAID/Afghanistan recognizes these challenges and their potential impact on cost-effectiveness and implementation; therefore, the Mission focused on identifying best practices and lessons learned to inform future programming, rather than judging performance based on criteria more relevant to a traditional development approach in a secure operating environment.

SIGAR's "mixed results" discussion and reference to "pockets of success" is in large part the result of confusing security with stability. The two are not the same. It appears that this misconception, described on page 11 of the report, led to an assessment of LGCD's success by comparing the map of program activities with national violence trends. This is an invalid comparison. While USAID would hope that stabilization interventions would lead to reduced levels of violence, there are several reasons why, in the short term, this might not be the case.

See SIGAR comment 1.

[redacted]

It is conceivable, for example, that a cluster of villages experiencing growing levels of violence could also be experiencing improved stability in the minds of the Afghans residing there; indeed these villages might be a target for insurgents precisely because of an increase in government presence, improved government services and more active citizen participation, all of which are central to the notion of stability from an Afghan's point of view.

Communities in which LGCD was implemented may have had higher levels of violence because the program was specifically tasked to work in more violent areas as part of the larger Coalition Forces counterinsurgency campaign. At the same time, one could as easily argue that violence would have been even higher had the LGCD project not been present in these areas.

In many places, it is also possible that actual violence reporting in LGCD areas is higher than that in insurgent-controlled areas, creating the superficial appearance that the latter are "peaceful", although they would not qualify as "stable" in the way USAID and the Afghan government define the term.

LGCD was never intended to be judged by levels of violence. USAID believes that the methodology behind the SIGAR conclusions should be very carefully re-examined.

USAID/Afghanistan's commitment to a more systematic, rigorous approach to monitoring and evaluating stabilization programs began in November 2010 with the approval of a Stabilization Unit Performance Management Plan (PMP). The Stabilization Unit PMP provides a unified framework that captures the contributions of individual programs toward a shared assistance objective related to stability, something the Mission's overall PMP lacked until that point.

The Measuring Impacts of Stabilization Initiatives (MISTI) program (the Request For Task Order Proposal that SIGAR references in its report), will provide the Mission with tools and capacity for a much more rigorous, analytical approach. MISTI was awarded in March 2012 and will supplement -- not replace -- the role of implementing partners in monitoring and evaluating stabilization programs.

MISTI is aimed at establishing a community of practice consistent with the Administrator's Stabilization Guidance, committed to innovation and learning in what remains the relatively unexplored territory of providing

[redacted]

community development support within a whole-of-government counterinsurgency campaign.

On Page 6, SIGAR states "Less than half of LGCD Funds were spent on subproject activity". SIGAR further states "ARD and DAI's labor costs and all other costs (except security) constituted the largest percentage, at 50% for both ARD and DAI." This implies that the purpose of the project was somehow to spend more money on subproject activity, and that the mark was somehow missed. Further, this implies that the prime contractors for these activities were mere "pass through" managers and that their value to the program was only to provide a managerial placeholder and absorb overhead fees.

See SIGAR comment 2.

It should be noted that the contract budget is presented in the standard format showing budgeted amounts by traditional budget line items such as workdays ordered (i.e., labor costs), commodities, infrastructure, subgrants, security, other direct costs, indirect costs, etc. The budget as presented does not reflect the budgeted amounts by project components and deliverables described in the project objective.

The reality is that the prime contractor is and has always been responsible for the results of the project. Prime contractors are entitled to use a variety of techniques and activities, including subcontractors and sub-recipients, to successfully implement programs.

It should be recognized that prime contractors have to hire technical experts to adequately manage and implement the project components themselves and appropriately oversee sub-contractors and sub-grantees . Part of the prime contractors' labor costs would therefore be allocable to sub-projects activities. USAID would recommend analyzing LGCD's spending patterns from a more standard managerial cost accounting technique.

SIGAR notes on page 13 that it could not locate two LGCD sub-projects in Nangarhar Province, which according to DAI was the result of GPS coordinate data entry errors that have since been corrected. Not only was this confusion cleared up, but DAI subsequently visited the two sites and provided SIGAR with photos, video and GPS coordinates, all of which showed that the sub-projects at those sites were completed and continued to benefit the Afghan people. USAID requests that this be reflected in the report.

See SIGAR comment 3.

On page 15 under the section Financial Audit of LGCD Planned for 2012, SIGAR states, "USAID delayed arranging a financial audit of LGCD." This statement implies a purposeful delay on USAID's part to contract for the audits when in fact the delays were due to DCAA's backlog in the performance of annual incurred costs audits of U.S.-based contractors – a DCAA problem that extends far beyond USAID. We also note that the statement about the memorandum of understanding between USAID and DCAA does not appear to be relevant to the discussion.

See SIGAR comment 4.

On page 16, it appears the SIGAR auditors may have confused questioned costs (misrepresented as "challenged by OIG") with costs determined to be unallowable. Costs that are questioned provide the contracting officer with information. The OIG recommended only that the Contracting Officer "determine allowability." It did not recommend that the costs be disallowed.

See SIGAR comment 5.

In regards to SIGAR's expressed "concerns" in the report's conclusion about the Stability in Key Areas (SIKA) program, USAID has several points to make:

a) USAID's stabilization portfolio is demand-driven based on the objectives of the Coalition Forces' counterinsurgency efforts and the additional, more recent imperative for transition to Afghan-led security and development. These objectives are articulated by U.S. government civilian-military leadership at the regional platforms and the Afghan government.

b) USAID/Afghanistan recognizes that stabilization programs share several things in common – including a focus on sources of instability vs. needs, a field-driven approach informed by the civilian-military campaign plan, and an effort to connect Afghan communities with nascent sub-national government authorities and entities.

   We believe that SIKA represents a distinct departure from past stabilization programs, particularly in regards to its institutionalized partnerships with the Ministry of Rural Rehabilitation and Development (MRRD) and the Independent Directorate of Local Governance (IDLG). SIKA provides a critical bridge between USAID's stabilization and development efforts.

[redacted]

Finally, for the sake of consistency and completeness, USAID requests that SIGAR's appendices list LGCD targets met and missed for 2011, the final year of the project, in addition to 2009 and 2010.

See SIGAR comment 6.

II. USAID'S RESPONSE TO THE RECOMMENDATION IN THE DRAFT REPORT

Recommendation 1:

To strengthen the CORs' oversight of contractor costs and allow CORs to link invoiced costs to the good and services to be provided, SIGAR recommends that the Mission Director, USAID/Afghanistan, take the following action:

1. *Direct contracting officers to ensure the SIKA contracts and others, as appropriate, require contractors to provide complete supporting detail with invoices.*

USAID Response:

While USAID/Afghanistan recognizes the need for accountability and appropriate oversight of contractor costs, the Mission does not see the need for requiring more detailed information over and above the payment documentation requirements established in the USAID Automated Directives System, the Federal Acquisition Regulation and the Code of Federal Regulations.

See SIGAR comment 7.

SIGAR states in its report that "USAID policy is to request only the documentation that the payment clause in the contract requires." SIGAR references ADS Chapter 630.3.2.3 as the source of this policy. USAID notes that SIGAR's recommendation contravenes the following statement within the same policy guidance: "It is not appropriate to request on a routine, recurring basis all of the support documentation that backs up a contractor's or recipient's invoice. Contractors and recipients are subject to annual audits, which provide reasonable assurance that they are claiming for reimbursement only eligible, supported costs."

Additionally, ADS 630.3.2.3 provides "If at any time a COTR has reason to believe that a contractor or recipient's financial reports and/or vouchers do not accurately reflect its expenditures, he or she should discuss the issue with the Contracts or Agreement Officer. The Contracts or

[redacted]

Agreement Officer may then decide to request a financial review or audit of the contract or agreement."

We believe that USAID's current policy guidance already addresses SIGAR's concern about strengthening COR's oversight of contractor costs. Furthermore, the Mission has implemented the Accountable Assistance for Afghanistan (A3) program to improve accountability over USAID funds. The A3 program looks to strengthen controls in various areas such as types of award instruments, vetting, financial audits, and project oversight.

Should SIGAR decide to retain the recommendation, we believe that it would be more appropriate to address it to the USAID Administrator. Implementation of SIGAR's recommendation would require changes in USAID policies and procedures that are applicable to Agency-wide awards, not just to USAID/Afghanistan awards.

See SIGAR comment 8.

cc: CDDEA
OAPA

The following are SIGAR comments on USAID's letter date April 8, 2012:

1. We stated in the draft report and this final report that, although the effect of LGCD on security levels cannot be isolated, violence data can be used as one indicator of stability. This statement is consistent with USAID's own efforts to measure the success of stabilization programs, including LGCD. Specifically, USAID's Request for Task Order Proposal for an independent contractor to measure the impact of stabilization initiatives stated that

   > "The platform must be capable of using advanced statistical methods in spatial analysis to quantify space-time interaction dependence between incidents of violence, perceptions of stability, and USAID interventions. That is, the analysis shall reveal where USAID interventions decrease the likelihood of violence, and identify stabilization trends at local, district, provincial, and other geographic scales. Working at first with existing geo-located data on stabilization interventions, violent incidents, and local perceptions, the platform shall be built to analyze which past interventions were most effective at reducing the incidence of violence and improving perceptions of stability, security, and government legitimacy."

2. We stated in the draft report and this final report that the original task orders envisioned that the majority of contractor costs would be for subgrants, commodities, and infrastructure programs—the line items most directly related to individual LGCD subprojects and, therefore, most likely to reach subproject beneficiaries. However, in subsequent contract modifications, USAID reduced the proportion of these costs to less than half of the total LGCD ceiling price. We highlighted this reduction as one of many indicators of the challenging environment in which LGCD operated.

3. We clarified the report, accordingly.

4. We recognize that DCAA has a large backlog of incurred cost audits. The concern we expressed was that, although DCAA is more than a decade behind in its incurred cost audits of DAI and 5 years behind in such audits for ARD, USAID had not made other arrangements until recently to obtain incurred cost audits, as allowed by its directives. USAID did so in response to a USAID OIG recommendation.

5. We stated that the USAID OIG had challenged some of DAI's costs and recommended that USAID/Afghanistan determine the allowability of and, as appropriate, recover the questioned costs from DAI. USAID agreed to do so. We recognize that contracting officers decide if costs are allowable.

6. We added this information to appendix IV.

7. In programs like LGCD, the risk the U.S. government accepts is particularly high. Therefore, it is not only appropriate, but necessary, that the USAID/Afghanistan Mission Director go beyond the agency's general policy by instituting additional requirements that will give the Mission greater assurance that contractors and recipients are claiming for reimbursement only eligible, supported costs.

8. While our recommendation may have broader applicability, we addressed this recommendation at the Mission level given the unique risks posed by stabilization programs in Afghanistan. Therefore, we kept the recommendation addressed to the Mission Director. If USAID believes that the recommendation has broader applicability, we welcome its efforts to apply it throughout the agency.

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